HM Treasury

PWLB Guidance for Applicants – August 2021

Background

1. The government recognises the valuable contribution that local authorities make to the social and economic infrastructure of this country and is committed to the approach of local decision-making and accountability under the prudential regime.

2. The government supports local investment in part by offering low cost loans to local authorities through the Public Works Loan Board (PWLB), which is an internal function of HM Treasury. The purpose of the PWLB is to offer long-term, affordable loans to support local authority investment in service delivery, housing, economic regeneration, treasury management, and occasionally preventative action, under the prudential regime.

3. In February 2020 Parliament reformed the statutory basis of the PWLB, transferring its lending powers to HM Treasury. In March 2020 the government consulted on revising the PWLB's lending terms to reflect these new governance arrangements, and to end the situation in which a minority of local authorities used PWLB loans to support the acquisition of investment assets bought primarily for yield (as defined in paragraphs 43-47).

4. The government published its response to this consultation and implemented these reforms in November 2020. These lending terms came into effect on 26 November 2020 and meant that any capital spending committed to from this date must comply with these terms in order to access PWLB borrowing.

5. This guidance was first published on 25 November 2020. This revision was published on 12 August 2021 and provides further clarification on specific points based on feedback from local authorities.

Scope and purpose of this document

6. HM Treasury has issued this document to help local authorities ensure that their capital plans are compliant with ongoing access to the PWLB under the lending terms published in November 2020. This document should be read alongside the Operational Circular and other technical materials issued by the DMO.

7. HM Treasury has chosen to issue guidance setting out its lending policy because of the challenges of developing strict definitions that reliably give the intended categorisation. This guidance provides broad definitions of the permissible categories of local authority capital expenditure (service delivery, hosing, regeneration, preventative action and treasury management), to encapsulate the core activities of local authorities which the government wishes to support, whilst setting out a stricter definition of investment assets bought primarily for yield, which the lending terms restrict. This is in line with the wider approach of the prudential system of recognising the complexity of the sector and drawing on the expertise of the finance director (s151 officer or equivalent) of each local authority. This supplements the existing principle in the prudential code that local authorities should not enter into financial arrangements which serve no direct policy or treasury management purpose.

8. All ongoing capital expenditure must be compliant with this lending policy, notwithstanding that any project commenced or contractually agreed to proceed prior to 26 November 2020 will not affect access to the PWLB. The government may ask a local authority for evidence that this is the case.

9. Any investment asset bought primarily for yield which was acquired after 26 November 2020 would result in the authority not being able to access the PWLB in that financial year or being able to use the PWLB to refinance this transaction at any point in the future.

10. These arrangements apply to major local authorities in England, Scotland, and Wales which can borrow without explicit government approval and are required to have regard for the Prudential Code. They apply to all capital spending, whether it is within the local authority’s borders or outside and whether it is financed through PWLB borrowing or

another source. These arrangements do not apply to smaller local authorities (such as parishes, town and community councils, and drainage boards) as separate arrangements already exist for these entities. A list of affected authorities is given in Annex A. The government will advise any entity which is unsure whether it must follow these lending arrangements or whether they borrow from the PWLB under separate arrangements.

11. The government will continue to monitor how practice develops following the implementation of these reforms and will revise this document as required to ensure that the new lending arrangements meet their objective of protecting local authorities' freedom to pursue high-value capital projects under the Prudential Framework.

Submitting a PWLB Certainty Rate return

12. Each local authority that wishes to borrow from the PWLB must submit a high-level description of their capital spending and financing plans (whether it is financed through PWLB borrowing or another source) for the following three years (meaning any capital spending and financing for the whole current financial year and subsequent two financial years), including their expected use of the PWLB. Local authorities will be able to revise these plans in-year as required.

13. Plans will be submitted in a Certainty Rate return through DELTA, an online data collection system run by MHCLG. These returns are reviewed by HM Treasury and MHCLG to provide assurances that an authority's capital programme is compliant with PWLB lending policy. A sample of the return is attached in Annex B. Local authorities will be asked to provide:

   a. the amount of planned new long-term (more than one year) borrowing

   b. the amount of planned capital expenditure that will be financed by borrowing

   c. further information about the planned capital expenditure (whether financed through borrowing or other sources)

i. how much they plan to spend in each year in each of a set of categories which have been developed through consultation with the sector and which between them cover all acceptable capital activity if the local authority wishes to borrow from the PWLB. See the ‘assigning capital projects to categories’ section of this document for guidance on how to assign projects to these categories

ii. a short description of the main projects in each of these categories covering at least 75% of the spending in that category

d. an assurance from the section 151 officer or equivalent that the local authority does not intend to buy investment assets bought primarily for yield

14. We would expect that if a local authority has committed to any significant new items of capital expenditure or removed any significant items of capital expenditure since the return was submitted, the return would no longer be current. In which case, the section 151 officer would need to update the section on planned capital expenditure. The amounts for planned new long-term borrowing or planned capital expenditure that will be financed by borrowing should also be updated if they have changed by more than 10%, or if the borrowing plans have been submitted for re-approval by the council or another delegated authority.

15. The Certainty Rate returns will be launched ahead of each new financial year on 1 March and will remain open until 31 March the following year. Receipt of these summaries does not imply that the plans have been endorsed by HM Treasury or the government.

Applying to borrow from the PWLB

16. To apply for a PWLB loan, a local authority must submit an electronic template to the PWLB. The authority should specify the amount required, the type of loan, the duration of the loan and the concessionary rate that should be applied.

17. The electronic template will ask the local authority to confirm that the plans they have submitted in their Certainty Rate return remain current and that they are not planning to use the PWLB to refinance any investment assets bought primarily for yield transactions which were made after 26 November 2020. If the authority cannot provide both of these assurances, the loan application will be rejected.

18. The electronic template will also ask the local authority to confirm that the assurance that they do not intend to buy investment assets bought primarily for yield remains valid. Where a local authority cannot provide this assurance, but they intend to borrow for refinancing or the externalisation of internal borrowing, this should be noted on the electronic template. Unless the authority is borrowing for refinancing or the externalisation of internal borrowing, the loan application will be rejected.

Assigning capital projects to categories

19. HM Treasury has developed the following guidance in consultation with the sector to help local authorities ensure that their capital plans are compliant with ongoing access to the PWLB. The PWLB will continue to support service delivery, housing, economic regeneration, preventative action, and treasury management. The guidance also includes a definition of investment assets bought primarily for yield, which the PWLB will not support.

20. Individual projects and schemes may have characteristics of several different categories. In these cases, the section 151 officer or equivalent of the authority should use their professional judgment to assess the main objective of the investment and consider which category is the best fit.

21. These lending terms do not prevent local authorities from making a significant investment to improve and/or change the use of an asset that is not owned by the local authority where it serves a direct policy purpose. Local authorities may also deliver policy objectives through a third party (such as a housing authority, joint vehicle or joint venture with a private sector investor, local authority-owned company etc.). If a local

authority wishes to deliver policy objectives jointly (such as through an equity investment in a joint company) or to on-lend money to a third-party to deliver objectives in an innovative way, the government would expect that spending to be reported in the most appropriate category (service delivery, housing, economic regeneration, preventative action, or treasury management) based on the eventual use of the money.

22. There are some instances where local authorities have a legacy ownership of companies jointly with private investors. In some instances, these companies have issued new shares to raise capital. Local authorities are free to take up rights issuances of this nature under the new PWLB lending terms so that the public sector shareholding in these assets is not diluted in a poor VfM way, regardless of the nature of the company in question. Local authorities should include taking up any such rights issuances in the category judged to be most appropriate.

23. An assessment of whether any item of capital expenditure complies with the terms of the PWLB should be made by the section 151 officer. In order to maintain the strength of the prudential system, HM Treasury has chosen to issue guidance and rely on the section 151 officer's interpretation of the guidance to inform its decisions. An example list of hypothetical transactions and how they should be categorised under these lending terms is given in Annex C.

24. The government cannot provide assurances on any specific project ahead of borrowing outside the process set out in the 'reviewing decisions' section of this document.

Defining activity

25. **Service delivery** is expenditure on assets that form part of the authority's public service delivery. This consists of activity that would normally be captured in the following areas in the MHCLG Capital Outturn Return (COR): education, highways & transport, social care, public health, culture & related services, environmental & regulatory services, police, fire & rescue services, and central services.

26. The COR is not an exhaustive list and the section 151 officer can categorise similar items of expenditure as service delivery, even if they

are not normally captured in the COR. For example, the climate change costs section of the COR normally only includes capital costs associated with waste reduction schemes, but many local authorities have wider expenditure to meet climate change related policy objectives (such as renewable energy developments) which would also be categorised as service delivery. An asset that is held primarily to generate an income which is used to support wider service spending, but serves no direct policy purpose, **should not** be categorised as service delivery.

27. **Housing** is activity normally captured in the HRA and General Fund housing sections of the COR, or housing delivered through a local authority housing company. This is given separately from 'service delivery' because of the relative concentration of cross-subsidy and other innovative financing arrangements in housing projects.

28. Housing can include all spending on delivering new homes, maintaining or improving existing homes, and purchasing built homes to deliver housing services. This is the case irrespective of the financial arrangements of the housing project or housing delivery. However, the government expects that the location and value of any housing expenditure be appropriate to meet the local authority's housing needs.

29. **Regeneration** involves direct investments in assets to generate additional social or economic benefits. Regeneration projects would usually have one or more of the following characteristics:

  a. the project is addressing an economic or social **market failure** by providing services, facilities, or other amenities that are of value to local people and would not otherwise be provided by the private sector

  b. the local authority is making a significant **investment** in the asset beyond the purchase price: developing the assets to improve them and/or change their use, or otherwise making a significant financial investment

  c. the project involves or generates significant **additional** activity that would not otherwise happen without the local authority's intervention, creating jobs and/or social or economic value

30. While some parts of a regeneration project may generate rental income, these rents should be **recycled within the project or applied to related regeneration projects**, rather than being applied to wider services.

31. **Preventative action** is a special category which involves direct financial support to local companies or acquiring assets as a way to protect jobs, prevent social or economic decline. This type of activity is distinct from regeneration, as it is only preserving existing activity as opposed to creating additional activity, but is not an 'investment assets bought primarily for yield' as yield is not the primary motive of the activity.

32. This type of action would have <u>all</u> of the following characteristics:

   a. the intervention **prevents a negative outcome**, such as by buying and conserving assets of community value that would otherwise fall into disrepair, or providing support to maintain economic activity that would otherwise cease

   b. there is **no realistic prospect of support** from a source other than the local authority

   c. the local authority has an **exit strategy**, and does not propose to hold the investment for longer than is necessary to achieve the objectives that justified the intervention

   d. the intervention takes the form of grants, loans, sale and leaseback, equity injections, or other forms of business support that generate a **balance sheet asset**.

33. This category can also be used for taking up rights issuances of new shares, where a local authority jointly owns a company with private investors, as described in paragraph 19, where it does not better fall into one of the alternative categories.

34. This category is distinct from routine repairs, maintenance and preventative activities which would normally be captured in the MHCLG Capital Outturn Return (COR) (such as expenditure on flood defences, repair or maintenance work to existing council-owned assets etc.) which should be included in the service delivery category.

35. The government does not anticipate that local authorities would spend significant sums on preventative action. Local authorities that are considering such action should ensure that they have assessed the compliance of the proposed action with all relevant subsidy control provisions in domestic and international law. The government is not responsible for ensuring that local authorities meet this requirement.

36. **Treasury management**, unlike the other categories listed, is not a type of capital expenditure. However, treasury management includes the refinancing or extending of existing debt from any source, the externalisation of internal borrowing or borrowing to manage cashflow within year, which local authorities often finance through PWLB borrowing or other capital resources.

37. The government recognises the benefits of having ready access to the PWLB for refinancing. The PWLB will therefore lend for this purpose even if the local authority is planning activity that makes them otherwise ineligible for PWLB support. Authorities which intend to borrow for refinancing or the externalisation of internal borrowing whilst planning activity that makes them otherwise ineligible for PWLB support should make this clear on the electronic template when applying to borrow from the PWLB.

38. Local authorities must not pursue a deliberate strategy of using private borrowing or internal borrowing to support investment in an asset that the PWLB would not support and then refinancing or externalising this with PWLB loans.

39. For the purposes of these lending arrangements, activity that should be included in the treasury management section of the Certainty Rate return are the refinancing or extending of existing debt from any source, and the externalisation of internal borrowing. Other treasury management investments, such as inflation-proofing cash balances, in compliance with CIPFA's Treasury Management in the Public Services code of practice are outside the scope of the PWLB lending terms and should not be included in the Certainty Rate return.

40. Under the Prudential Framework local authorities cannot borrow or invest for speculative purposes. Financial investments should be made for security, liquidity, and yield in that order, meaning local authorities should always pick safe investments over riskier investments with higher returns. Therefore, while it is accepted that authorities might borrow in advance of capital expenditure, this must be for prudent financial management and not for the purpose of securing yield.

41. The government and CIPFA are clear that borrowing to invest for yield is not permitted under the Prudential Framework.

42. Investments in commercial property or speculative financial instruments are not considered treasury management.

43. **Investment assets bought primarily for yield** are assets that serve no direct policy purpose but is held primarily to generate an income. An 'investment asset' could be a capital or property asset, or interest or right that generates a balance sheet asset (such as, but not limited to a loan, sale and leaseback agreement). As it has been 'bought primarily for yield', the investment asset would serve no direct policy purpose linked to the authority's core functions, but has been acquired primarily because it would generate an income stream for the authority, which would most often (but not exclusively) be used to support wider service spending. If a local authority is planning to acquire investment assets bought primarily for yield in any of the following three years, the authority will be unable to borrow from the PWLB to finance any expenditure in its capital plan.

44. These investment assets bought primarily for yield would usually have one or more of the following characteristics:

   a. buying land or existing buildings to let out at **market rate**

   b. buying land or buildings which were previously operated on a commercial basis which is then continued by the local authority without any **additional investment or modification**

   c. buying land or existing buildings other than housing which **generate income and are intended to be held indefinitely**, rather than until the achievement of some meaningful trigger such as the completion of land assembly

d. buying a **speculative investment asset** (including both financial and non-financial assets) that generates yield **without a direct policy purpose**

45. If a local authority is planning to acquire investment assets bought primarily for yield in any of the following three years, the authority will be unable to borrow from the PWLB to finance any expenditure in its capital plan. Local authorities cannot use the receipts from selling existing primarily for yield assets to acquire new primarily for yield assets. Local authorities can use the receipts from selling existing primarily for yield assets to finance other capital expenditure in service delivery, regeneration, housing and preventative action.

46. Where an authority has committed to a transaction which would be categorised as investment assets bought primarily for yield but **commenced or was contractually agreed** prior to 26 November 2020, this will not affect access to the PWLB. Where an authority decides to proceed with a new investment asset bought primarily for yield transaction despite these lending terms, they will not be able to access the PWLB in that financial year and the PWLB **cannot** be used to refinance this transaction at any point in the future.

47. This does not prevent capital expenditure to maintain existing commercial properties, or in order to increase their value where the local authority is planning to sell the property.

Reviewing decisions

48. The government is committed to the prudential system. We expect the local authority's section 151 officer (or equivalent) to make an assessment on whether a project or transaction complies with the terms of the PWLB. If HM Treasury has concerns that a loan may be used in a way that is incompatible with HM Treasury's duty to Parliament to ensure that public spending represents good value for money to the Exchequer and aligns with relevant legislation, the government will contact the LA to gain a fuller understanding of the situation before taking a decision on

whether to lend to the authority. In practice such an eventuality is highly unlikely and would only occur after extensive discussion with the local authority in question – but a safeguard is necessary to protect the taxpayer.

49. Local authorities should expect that their auditors will review their internal decision-making processes around borrowing and investment, including the assessment of whether their plans are compliant with the lending terms of the PWLB. Local authorities should make sure that these processes are robust. Auditors do not have the power to overrule the assessment of the section 151 officer or equivalent on whether the local authority's plans are compatible with access to the PWLB (although the final decision on whether any item complies with the terms of the PWLB rests with HM Treasury). If auditors raise concerns about these processes, the government may contact the local authority to understand the situation.

50. If the government has concerns **before** a loan is issued:

a. HM Treasury would suspend the advance of the loan and work urgently with the applicant to gain a full understanding of the situation.

b. If the authority can assure HM Treasury that the planned transaction is an acceptable use of the PWLB, the loan will be processed and advanced as soon as practicable in accordance with the agreed terms. Where the offered PWLB interest rate has risen in this time, HM Treasury will usually offer the interest rate agreed at the time of the initial application, provided this would not result in the PWLB lending at a loss.

c. If HM Treasury concludes that a planned transaction is an inappropriate use of the PWLB:

i. the authority may be asked to cancel this project as a condition of accessing the PWLB

ii. the authority may also, as a condition of ongoing access to the PWLB, be required to provide additional information about their future capital plans, to assure the government that the plans do not contain any other activity that would not be an appropriate use of PWLB support. This exercise would focus on activity that is more likely to be contentious and would be a time-limited intervention until government is satisfied that the risk of a further breach has subsided

iii. if the authority refuses to give these assurances, they will not be allowed to borrow from the PWLB.

d. If HM Treasury concludes that a transaction in question which has already concluded (and was agreed after 26 November 2020) was not an appropriate use of the PWLB:

i. as a condition of ongoing access to the PWLB, the authority will be required to provide additional information about their future capital plans, to assure the government that the plans do not contain any other activity that would not be an appropriate use of PWLB support. This exercise would focus on activity that is more likely to be contentious – the government does not intend to review the entirety of the capital plan. This would be a time-limited intervention until government is satisfied that the risk of a further breach has subsided

ii. HM Treasury may also offer the authority a higher interest rate on their PWLB loan

iii. where the transaction was in clear breach of the rules, HM Treasury may also require that the borrower agree a plan to unwind the transaction to a reasonable timetable as a condition of the loan being approved

e. if the local authority refuses to agree to any requirements set out by the government, they may not be allowed to borrow from the PWLB.

51. If HM Treasury has concerns **after** a loan is issued:

a. The government will notify the borrower and work urgently with them to gain a full understanding of the situation.

b. If HM Treasury concludes that the transaction in question was not an appropriate use of the PWLB (and was agreed after 26 November 2020), and that the information provided in the application to the PWLB was materially incorrect or misleading in the view of the Treasury:

    i. as a condition of ongoing access to the PWLB, the local authority will be required to provide additional information about their future capital plans, to assure the government that the plans do not contain any other activity that would not be an appropriate use of PWLB support. This exercise would focus on activity that is more likely to be contentious – the government does not intend to review the entirety of the capital plan. This would be a time-limited intervention until government is satisfied that the risk of a further breach has subsided

    ii. HM Treasury may also offer the authority a higher interest rate on future PWLB loans

    iii. where the transaction was in clear breach of the rules, HM Treasury may also require that the borrower agree a plan to unwind the transaction to a reasonable timetable

    iv. finally, HM Treasury would reserve the right to require that loans be repaid in full, with any applicable exit charges.

Annex A: List of affected bodies

List of local authorities that the new lending arrangements apply to:

- The councils of all counties and districts in England
- The councils of all counties and county boroughs in Wales
- The councils of all London boroughs
- The Common Council of the City of London
- The Greater London Authority and its functional bodies
- The councils of local government areas in Scotland
- The council of the Isles of Scilly
- The Broads Authority
- National Park Authorities established under the Environment Act 1995
- A Combined Authority established under the Local Democracy, Economic Development and Construction Act 2009
- Police & Crime Commissioners
- Fire & Rescue Authorities
- Waste Disposal Authorities
- Port Health Authorities
- Regional Transport Partnerships in Scotland

List of local authorities that borrow from the PWLB under separate arrangements:

- Parish, town and community councils in England and Wales
- Drainage Boards
- Other authorities in England, Wales or Scotland having power to levy council tax or to issue a precept or levy

The government will advise any entity which is unsure whether it must follow these lending arrangements or whether they borrow from the PWLB under separate arrangements. Queries should be directed to pwlb@hmtreasury.gov.uk

Annex B: form for local authorities to submit their plans

Applicants should submit their plans in the Certainty Rate return on DELTA. The Certainty Rate return for the current financial year will be relaunched on 1 March each year. The Certainty Rate return can be found at: https://delta.communities.gov.uk/login

Section A: Total planned new long-term external borrowing

	2021-22	2022-23	2023-24
PWLB			
of which to be used for refinancing existing debt			
Other sources			
of which to be used for refinancing existing debt			
Total PWLB & Other sources			
of which to be used for refinancing existing debt			

Please ensure that the values for planned capital expenditure are entered in £000's

Section B: Total planned capital expenditure to be financed by borrowing

	2021-22	2022-23	2023-24
Financed by in-year long-term borrowing			
Financed by prior-year long-term borrowing			
Financed by short-term (less than one year) and/or internal borrowing			

Other substitute for borrowing (please describe in Commentary section)			
Total			

Please ensure that the values for planned capital expenditure are entered in £000's

Section C: Type of Capital Expenditure (permitted within PWLB lending rules):

	2021-22	2022-23	2023-24
Service delivery			
Housing			
Regeneration			
Preventative action			
Total Capital Expenditure			

Please ensure that the values for planned capital expenditure are entered in £000's

Treasury Management:

	2021-22	2022-23	2023-24
Treasury Management			

Please ensure that the values for planned refinancing and externalisation of internal borrowing are entered in £000's

Investment Assets bought primarily for yield:

	2021-22	2022-23	2023-24
Investment Assets bought primarily for yield			

Please ensure that the values for planned capital expenditure are entered in £000's

Please enter a short description (c. 100 words) of the activity in each category, covering at least 75% of the spending in that category

	Description of activity (c. 100 words)
Service delivery	**e.g. school improvements (£5), low-emissions zones and traffic schemes (£27m), building of a new recycling facility (£40m), improvements to IT systems (£15m) etc.**
Housing	**e.g. the building of new council housing (£25m), purchasing built homes (£80m) maintenance and improvements to existing council housing (£15m) etc.**
Regeneration	**e.g. acquisition of land for town centre redevelopment (£20m) etc.**
Preventative action	-
Treasury management	**e.g. refinancing prior PWLB borrowing (£8m), refinancing short-term borrowing (£0.6m), externalising internal borrowing (£2m) etc.**
Investment Assets bought primarily for yield	-

Statement from the section 151 officer (or equivalent senior finance officer)

I confirm the information provided in this return has been approved and verified by my authority's Section 151 officer (or equivalent level financial officer) personally.

I confirm that the information submitted here is an accurate representation of my organisation's plans.

I confirm that my organisation does not plan to buy investment assets bought primarily for yield in any of the years given in the table above.
YES/NO

I confirm that my authority wishes to have access to the PWLB for the period between 1 April 2021 and 31 March 2022.

Annex C: Examples of categorising projects

Example 1: A council purchases a former office block within its area

The property has been empty for 24 years. The council purchases the private developer that owns the office block, and so the property itself. The developer had previously obtained the planning permission to have it turned into 47 apartments with a small shop but is no longer moving forward with these plans. The local authority plans to own the property long-term.

The PWLB **will support** this sort of activity in future – whether the council planned to use the former office block for housing or for new commercial space, because the acquisition and conversion of a derelict building is a clear example of regeneration.

Example 2: A council purchases a major supermarket, outside of the local authority area but within the region

The supermarket would cost the council £45 million. This is primarily to generate income for the local authority, though there is potential for redevelopment in the future if desired. The capital strategy states that the local authority can sell this asset or find an alternative exit strategy.

The PWLB **will not support** this kind of activity in future. A supermarket in another local authority is unlikely to be delivering public services, housing, or regeneration, and is unlikely to be addressing a market failure. This would make it an investment asset bought primarily for yield and the council will be unable to borrow from the PWLB to finance any expenditure in its capital plan if this activity were included.

Example 3: A council purchases a town centre hotel and retail units within its local authority area

It costs the local authority £47.6 million. The hotel closed down in 2014 and part of the building has been demolished. Some of the retail units have become vacant since the closure of the hotel. They plan to build a new leisure development, consisting of a cinema and restaurants. This is part of a regeneration project that has had £80 million of investment from the local authority and external sources. This has funded a new health centre, bus station and community library, among other things. The redevelopment of the town centre is expected to give a £14 million boost to the local economy, create 400 jobs and generate another £570,000 in business rates annually.

The PWLB **will support** this sort of activity in future as it is clearly aimed at regenerating the town centre and includes service delivery in the form of the health centre and is a clear example of regeneration. If the currently occupied retail units are generating rental income, the council should be clear how any surplus income would be spent and ensure it is not being directed towards general service spending.

Example 4: A council purchases a business campus within its local authority area

It costs the local authority £126 million. This will generate a financial return of £20 million over the 30-year period. The site has 98% occupancy with many high-profile tenants and 3,500 workers on site. There is potential for new offices to be built on the site’s free space.

The PWLB **will not support** this kind of activity in future. A pre-let office building is unlikely to be delivering services, housing, or regeneration and the high occupancy rate suggests there is not a market failure for this sort of offices in the area. This would make it an investment asset bought primarily for yield and the council will be unable to borrow from the PWLB to finance any expenditure in its capital plan if this activity were included.

Example 5: A council purchases a shopping centre and offices within its local authority area

The centre is on a struggling high street and has many vacant units. The offices are adjacent to it and have been vacant for several years. It will take up to five years for the office block to be stripped of asbestos and demolished – at which time the authority will also demolish the shopping centre and promote the comprehensive redevelopment of the high street.

In the meantime, the authority plans a light refurbishment of the shopping centre to encourage existing tenants to stay at market rates and will use vacant units for community and third sector activities on below market terms. The income from the shopping centre will support the social activities and maintain the shopping centre until its demolition

The PWLB **will support** this sort of activity in future, as it is clearly aimed at regenerating the high street. This would likely be an example of regeneration, but the council would need to be clear about how any surplus income would be spent and ensure it is not being directed towards general service spending.

Example 6: A council purchases an office building within district using the receipts from another commercial property sale

The council owns a portfolio of commercial properties which were all purchased prior to 26 November 2020. The rental income from these properties provides an income for the council which used for service spending. The properties are primarily located outside the authority's boundaries.

The council has identified an office building within its district that has recently been put on the market. The building is currently occupied by five businesses with long-term lease agreements. The council intends to purchase this office building without borrowing, but instead using the receipts from selling another commercial property in its portfolio. In addition to generating greater rental income, the new office building will allow the council to substitute an out-of-area property for one located inside the district, giving the council's portfolio a greater stake in the local community.

The PWLB **will not support** this sort of activity in future. Following the consultation on the new lending terms of the PWLB the government decided not to create an exception for active portfolio management by using the receipts from selling existing commercial property assets and replacing them with new ones. This would be purchasing new investment assets bought primarily for yield and the council will be unable to borrow from the PWLB to finance any expenditure in its capital plan if this activity were included.

Example 7: A council purchases a complex of homes, shops and offices within its local authority area

It costs the council £78 million. A private developer bought the site four years earlier for £37 million and refurbished and rebranded it, before selling it on to the local authority. The Council predict it will make a net annual income of £4 million per year.

The PWLB **will not support** this sort of activity as there is no evidence of market failure or meaningful investment or change of purpose. This would make it an investment asset bought primarily for yield and the council will be unable to borrow from the PWLB to finance any expenditure in its capital plan if this activity were included.

Example 8: A council purchases land in its town centre

The council aims to reconnect the town centre to the river by renovating the space between the two, improving the riverbanks and delivering new wayfinding and seating.

This creates social value, as it encourages active travel such as walking and cycling and makes the town a more pleasant place to live.

The PWLB **will support** this sort of activity in future because the land has been acquired and invested in to increase its social value, making it a clear example of regeneration.

Example 9: A council purchases housing through a wholly-owned housing company

The council has set up a housing strategy to address housing shortages in its area. The strategy includes a mix of new building projects, financed through on-lending to its wholly owned housing company, and acquiring completed homes. Most of the homes in this strategy will operated on a market rent basis. These homes are located within-area and in neighbouring districts.

The PWLB **will support** this activity as is a clear example of housing. The PWLB will support housing, irrespective of the financial arrangements of a housing project or housing delivery.

Example 10: A council purchases land for an energy generation project

The council has made energy efficiency and sustainability a policy priority. The council will purchase land in a neighbouring district for a renewable energy project. Windfarms will be built on the land. The energy generated by these projects will be sold back to the national grid and this income will be used to cross-subsidise the land purchase and other environmental projects the council wants to pursue.

The PWLB **would support** this sort of activity because project serves a clear policy purpose for the local authority, advancing its environmental and climate change, and is not primarily to generate an income. This would be an example of service delivery.

Example 11: A council purchases green bonds

The council has issued a Climate Emergency declaration as part of a wider agenda by the council to take steps to tackle climate change and become carbon neutral. The council intends to purchase green bonds which will invest in climate projects which will reduce carbon emissions. Whilst these investments will not be in the district, the council intends to offset these reductions against the council's carbon emissions in order to meet its target to become carbon neutral target. These green bonds will generate an income for the council.

The PWLB **will not support** this sort of activity as part of an authority's capital programme because, despite their stated environmental objectives, the green bonds will not deliver any direct environmental improvement to the council, district or wider economic area because there is no new energy generation and so it cannot be categorised as service delivery or any of the other permitted categories of capital expenditure.

Local authorities may invest in financial products as part of treasury management investments, such as inflation-proofing cash balances, in compliance with CIPFA's Treasury Management in the Public Services code of practice, which is outside the scope of the PWLB lending terms and should not be included in the Certainty Rate return. See the 'treasury management' subsection of 'defining activity'.

Example 12: A council jointly invents in hydrogen production for vehicles with a private company.

The council has declared a climate emergency and wishes to upgrade its vehicle stock to run on hydrogen. To ensure the right infrastructure is in place it makes an equity investment in a new company jointly with a private sector partner. This new company will build a hydrogen production facility which will provide fuel to both the council vehicles and the general public. Depending on the future demand for hydrogen fuel the company may return a profit to the local authority.

The PWLB **will support** this sort of activity as any financial returns are incidental to the local authority's main aim of meeting its climate objectives. This would be an example of service delivery.